501 SW 7th Street, Suite Q
Des Moines, IA 50309-4540
PHONE: (515) 244-7181
FAX: (515) 244-6397
www.iowacounties.org

ISAC
Iowa State Association of Counties

Senate Ways and Means "Listen and Learn Session"

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Comments by: William R. Peterson, Executive Director

I want to provide three reasons why ISAC is strongly opposed to the property tax components in HF 697.

1. **The Fiscal Impact of Rollback of Commercial, Industrial and Railway Valuation.** ISAC has estimated the total revenue loss to counties as a result of the 25% rollback of commercial, industrial and railway values will be in excess of $61 million when the bill is fully implemented. A vast majority of that revenue loss will take place in the most urban counties. In addition, it is important to note that any county having less than average growth in agricultural values and stagnant residential values will be negatively impacted by reducing the assessment limitation from 4% to 2% on agricultural and residential properties. Under this proposal, even minimal growth in values will trigger additional rollbacks in those two classifications.

   The rollback provisions are sure to negatively impact existing Tax Increment Financing projects. As you know, the repayment of TIF debt, which was primarily incurred to encourage business development, is repaid with the incremental growth in taxable value in the TIF district. Skimming the incremental increase off the top of commercial and industrial valuations may result in difficulties in repaying TIF debt. And with TIF dollars accounting for almost 7% of all property taxes being paid, there is real potential for trouble. Finally, the bill is unclear on where the rollback will apply – whether to the increment or the base valuations.

2. **Revenue and Budget Limitations.** The division in the bill that replaces current general and rural levy rate limitations with a revenue limitation tied to the Midwest CPI and eliminates "supplemental levies" for stated purposes will have a significant negative effect on counties with stagnant valuation growth. The use of the Midwest Consumer Price Index is not reflective of the inflationary costs of local government. A county can still budget for these mandated "supplemental services" but won't be able to levy additional dollars for those purposes. The "supplemental levy" provisions in the current statute were created to allow for budgeting of hard to quantify expenses. These changes are effective with the budgets to be adopted for July 1, 2012. So the budget for FY 2013 will be based on a county's previous year's budget plus the annual growth amount plus any tax resulting from net new construction or improvement valuation. This limitation also includes new restrictions on the use and accumulation of

various budgeted reserve funds, which may result in needing to fund county expenditures through a greater use of debt. There has been no provision made for the elimination of revenues generated through a local option sales tax. What happens if the citizens reject that revenue source during a renewal referendum? Finally, if a county needs to exceed the new revenue limitation, the bill's only escape mechanism is to hold a special election. There are no provisions for local flexibility.

3. **Legislative Appropriation and Intent to Fund Revenue Shortfalls due to Rollback of Commercial, Industrial and Railway Valuation.** HF 697 appropriates up to $150 million, which is slightly less than half the lost revenue for local governments and schools, to replace the revenue losses due to the rollback of commercial, industrial and railway values over the next five years. The theory by proponents of the bill is that resulting growth in commercial and industrial values due to the rollback in taxes will more than make up for the remaining $200 million in losses. Based on past experience, there is no reason for counties or other local governments to have confidence that either of these things will happen. Let me explain:

    a. **Legislative Intent. Here are a few recent experiences that counties have had with the legislature's failure to provide promised funding to local governments:**
        i. Mental Health Property Tax Relief and Allowable Growth.
        ii. Machinery and Equipment Replacement.
        iii. Personal Property Tax Replacement.
        iv. Homestead Credit Funding.
        v. Military Service Exemption Funding.
        vi. Ag Land and Family Farm Credit Funding.

    b. **Boom in Commercial and Industrial Growth.** One only has to look at the impact of eliminating property taxes on machinery and equipment to recognize that projected growth in commercial values will not provide the tax bounce back that proponents of this proposal are predicting. Phasing out the final 30% of taxable value of industrial machinery and equipment began in 1996. The phase-out was to occur over 10 years. Industrial valuations have not increased by more than 4% since 1983. Despite a very favorable industrial property tax climate, the growth has been a moderate 1% to 2% a year. Commercial valuations have grown more than 4% only seven times in the last 25 years – again one would observe moderate taxable valuation growth.

    It just doesn't appear that county officials should put too much faith in "intent to fund" or a huge tax windfall resulting from commercial and industrial development.

In conclusion, ISAC does support the approach used in SF 522 as passed by the Iowa Senate. The reduction in the property tax burden of commercial, industrial and rail property owners can best be addressed by an income tax credit that goes directly to the taxpayer. It is our view that future Legislatures (and Governors) will be more likely to live up to their funding commitment if the beneficiary of that tax benefit is the taxpayer directly and not a local government.